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Inquiry into the
Ministry of Social
Development's
funding of
private rental
properties for
emergency
housing



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Inquiry into the Ministry of Social Development's funding of private rental properties for emergency housing

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Auditor-General's overview

E ngā mana, e ngā reo, e ngā karangarangatanga aha te motu, tēnā koutou.

In 2020, issues were raised in the media and directly with my Office about the Ministry of Social Development (the Ministry) funding the use of private rental properties in Auckland as emergency housing through the Emergency Housing Special Needs Grant (the emergency housing grant).

The issues were about the quality of some of the private rental properties, the amount that the Ministry paid for the rental properties, and the impact on the long-term rental market of using private rental properties as emergency housing.

The issues raised questions about the Ministry's mechanisms for ensuring that it was getting good value for money on behalf of taxpayers and how it made decisions about funding private rental properties as emergency housing. We were also interested in the process the Ministry used when it stopped funding private rental properties and returned to funding motels as emergency housing.

Emergency housing grants and emergency housing

The Ministry introduced emergency housing grants in 2016. They were one of several initiatives responding to an increasing number of homeless people needing short-term housing while they looked for something more permanent.

The emergency housing grant was intended to fund up to seven nights' temporary accommodation while the recipient looked for alternative accommodation. Until November 2017, the emergency housing grant funded commercial accommodation such as motels only.

The Ministry told us that using motels as emergency housing was not ideal for families, especially larger households that had to be separated in multiple motel rooms. Many motels did not have the facilities to meet the needs of disabled people needing emergency housing.

The Ministry's frontline staff and many of the Ministry's clients were having difficulty finding housing in Auckland, where there was a shortage of affordable rentals, public housing, and transitional housing. As a result, people remained in emergency housing for much longer than the original policy intended.

A pragmatic solution presented itself

In November 2017, a family that had been funded to stay in a motel through an emergency housing grant suggested to frontline staff that the Ministry fund a private rental property that the family found through an online short-term accommodation booking service. The property that the Ministry agreed to fund

through an emergency housing grant was more suitable and cheaper than the motel the family had been placed in.

From this small beginning in November 2017, the Ministry's use of private rental properties as emergency housing increased significantly, and the number of suppliers of private rental properties as emergency housing also increased.

Ministry staff told us that having private rental properties available as emergency housing was a "miracle" because it meant that they could find appropriate emergency housing for larger households. However, concerns about the practice were raised over time, including the impact on the supply of long-term private rental properties.

The Ministry continued to fund private rental properties through emergency housing grants until June 2020, after the Government closed New Zealand's borders to international tourists in March 2020 as part of its response to Covid-19.

Although the demand for emergency housing continued to increase, motels that usually provided accommodation to international tourists became available for emergency housing. This allowed the Ministry to stop referring its clients to private rental suppliers. It told suppliers that it would no longer fund private rental properties as emergency housing from 30 June 2020 and encouraged them to make their houses available as long-term tenancies.

Between November 2017 and the end of June 2020, the Ministry paid more than \$37 million to private landlords and property management companies in Auckland for emergency housing.

What we saw

The Ministry's frontline staff, who were in a difficult position, took an innovative approach to the urgent need for emergency housing that larger families and disabled people faced. The demand for housing was increasing, but the supply of suitable houses was low. Using private rental properties as emergency housing helped alleviate some of the problem. However, there were significant deficiencies with how the Ministry responded to the issues this approach raised.

The Ministry told us that it was a "price-taker", that it had no contract with the suppliers, and that other agencies, such as Tenancy Services and the Council, were responsible for monitoring the quality of emergency housing. However, I consider that the Ministry remained responsible for accounting for the way it spent money on behalf of taxpayers.

Strategic analysis and support for frontline staff were missing

Although Ministry staff decided to use private rental properties as emergency housing for pragmatic reasons, it represented a significant change in practice. The Ministry's assessment of the practice at a national level and consideration of how this approach aligned with its stated desire to fund warm, safe, and dry accommodation was limited.

The Ministry also did not provide any formal guidelines to its staff about how to make decisions to fund non-commercial accommodation, what price to pay, or how to evaluate the overall impact or cost of using private rental properties as emergency housing.

This may have been acceptable for an occasional or one-off situation, but we expected to see a consistent approach to decision-making, including guidance to staff, as the practice and costs of providing emergency housing this way increased.

The Ministry could not demonstrate that it received value for money

The staff entering into those arrangements on behalf of the Ministry had the delegated authority to do so and were able to agree costs that were "actual and reasonable". However, faced with finding a solution to an immediate housing need, frontline staff seemed to have limited control over what they would pay.

Ministry staff said that there was a pressing need to find somewhere for the people to stay. This meant that suppliers were often able to determine the rate because they knew that few options were available. As a result, the Ministry paid more than the long-term market rate for private rental properties.

This meant that there was a risk that properties would be removed from the long-term rental market in favour of the higher payments offered through emergency housing grants. For example, a long-term lease for a house used for transitional housing at a rental of \$1,400 a week was not renewed. Instead, it was used as emergency housing at a rental of \$3,900 a week.

Although the Ministry believes that, overall, the amount it paid for private rental properties was no more than it would have paid if those families had been placed in motels, it was not possible for the Ministry to demonstrate that the private rental accommodation it funded as emergency housing provided value for money. Paying the same amounts for different "products" is not the same as ensuring value for money.

The Ministry needed to do some analysis to decide what a fair rate was, such as comparing the market rates of weekly rental options for fully furnished houses or similar. It also needed to provide staff with guidance about what rates to agree with suppliers. The Ministry did not do this analysis or provide this guidance.

The Ministry did not monitor the quality of the accommodation

The Ministry said that its focus for emergency housing was on ensuring that people had a warm, dry, and safe place to stay. However, it did not have a way to check that the accommodation being provided met these expectations.

The Ministry does not consider that it was responsible for assessing the quality of the housing it provided or that it has the regulatory mandate or capacity to do this. The only mechanism that the Ministry said it had for ensuring that accommodation was suitable was by responding to complaints from people living there.

The Ministry received numerous complaints about the quality of some of the houses that it placed people in. We were also told about dwellings with building debris; that did not have cooking facilities, furnishings, or bedding; and that did not have appropriate consents from Auckland Council.

These could have been isolated incidents, but it is not possible to know their extent because the Ministry did not record and retain the addresses of the homes it housed people in, set standards for the properties it used, or have a process to check whether those properties met its expectations. The Ministry also did not have an accurate record of the complaints it received.

In our view, although there was evidence that service delivery staff responded to some individual complaints, the Ministry should have had mechanisms to ensure that it was clear what quality of housing should be supplied for the price it was paying. It should also have had controls to ensure that quality housing was being delivered.

In September 2019, the Ministry wrote to suppliers outlining several points focused on delivering the type of accommodation that aligned with its goals of warm, dry, and safe accommodation. For example, it asked providers to ensure that properties complied with the Residential Tenancies Act 1986, to provide accommodation with chattels (such as a heater, bedding, and linen), and to make properties available for inspection.

The Ministry considered setting up service level agreements with the suppliers at this time. It also began asking suppliers to provide evidence that they had authorisation to rent out their property as emergency housing when they registered as a supplier. Having an agreement with suppliers outlining these expectations and obligations, and requiring authorisation, are all matters that the Ministry may have considered earlier in the process to help ensure that recipients of emergency housing grants received the quality of accommodation that the Ministry expected.

In effect, the Ministry had a high-trust model with suppliers. When a public organisation is spending public money with a degree of trust that it will be put to certain use, it is important that the organisation is clear on the standards it expects. It is also important that it can verify whether those funds are being used as expected and what they are providing.

In this instance, we saw agreements to pay suppliers an agreed amount to provide accommodation, and little more than that. The Ministry had no way of knowing what standard of accommodation was being provided (and, in many instances, where that accommodation was) and whether it met the needs of those being housed.

Having an agreement with suppliers outlining these expectations and obligations, and requiring authorisation, are all matters that the Ministry could have considered earlier to help ensure that recipients of emergency housing grants received the quality of accommodation that the Ministry expected.

A system that relies on some of the most vulnerable in our community to make complaints is clearly inadequate. In my view, this is not enough to ensure that the Ministry met its aim of funding warm, dry, and safe emergency accommodation through emergency housing grants.

Good planning and strategic thinking help deliver effective services

Good planning and strategic thinking are important elements of delivering services to those that need them effectively. There is little evidence that it did the planning it needed to do to achieve its aim of funding warm, dry, safe emergency housing.

The Ministry has currently stopped paying to use private rental properties as emergency housing. However, it continues to fund emergency housing, including housing for larger households and disabled people. I encourage the Ministry to consider the needs of people requiring emergency housing more carefully and more strategically, consistent with the principles of the Homelessness Action plan and the Ministry's strategic documents.

This includes assessing the costs and benefits of each option, both in the short term and the longer term, what guidelines and support it provides to frontline staff for arrangements such as these, how it could provide clear standards and expectations about what is to be provided, and what the best arrangement between the Ministry and suppliers should be.

Concluding comments

Closing the borders made more commercial accommodation, such as motels, available as emergency housing for larger households and disabled people. However, that availability will likely change when New Zealand reconnects with the world. Some commercial accommodation suppliers may revert to providing accommodation to tourists. The Ministry should be planning for this now.

Whether or not the Ministry plans to use private suppliers, it should consider the lessons from our work. Consistent with its obligations under the *Aotearoa/New Zealand Homelessness Action Plan*, the Ministry should work with the Ministry of Housing and Urban Development and the communities most affected by homelessness to find and assess the available options.

The Ministry and the Ministry of Housing and Urban Development are jointly leading work on the *Aotearoa/New Zealand Homelessness Action Plan* to develop more effective responses to homelessness and reduce reliance on motels as a form of temporary accommodation.

The Ministry says that this work has resulted in it making numerous changes to its emergency housing processes to better support clients. This includes introducing new support roles (for example, intensive case managers), extended grant periods, improved data capture and supplier registration processes, and strengthened staff referral and placement practices.

I hope that the Ministry can use the findings in this report when it is considering how best to respond to the needs of people requiring emergency housing .

Acknowledgements

I thank the Ministry's staff and the staff at the Ministry of Housing and Urban Development for their assistance with this inquiry. I also thank people from elsewhere in the public sector and those involved in emergency housing for their information and views.

Nāku noa, nā



John Ryan
Controller and Auditor-General

6 December 2021

Introduction

- 1.1 In this Part, we discuss:
- why we were interested in the use of private rental properties as emergency housing;
 - the scope of our work; and
 - the structure of this report.
- 1.2 In 2016, the Government responded to an increasing problem of homelessness by introducing the Emergency Housing Special Needs Grant (the emergency housing grant). The emergency housing grant pays for emergency housing while people look for longer-term housing. The Ministry of Social Development (the Ministry) is responsible for administering the emergency housing grant.
- 1.3 Statistics New Zealand defines homelessness as people living without shelter, in temporary accommodation, sharing accommodation with a household, or living in uninhabitable housing.¹
- 1.4 Researchers analysed the 2018 Census data for the Ministry of Housing and Urban Development.² The analysis counted 18,157 homeless people in Auckland. Most of these were living in overcrowded houses.³
- 1.5 Both the Census and *Ira Mata, Ira Tangata: Auckland's Homeless Count report* by Housing First identified Māori and Pacific peoples as disproportionately represented in homelessness statistics.^{4, 5}
- 1.6 Housing First also identified that disabled people are over-represented in the number of Auckland's homeless people who were "sleeping rough" compared to the general population.
- 1.7 In 2020, the Ministry of Housing and Urban Development, along with other agencies, including the Ministry, published the *Aotearoa/New Zealand*

1 See Statistics New Zealand, "New Zealand definition of homelessness: 2015 update", at stats.govt.nz.

2 See Amore, K, Howden-Chapman, P, and Viggers, H (2018), *Severe housing deprivation in Aotearoa New Zealand, 2018*, He Kāinga Oranga/Housing and Health Research Programme. The report found that, of the 18,157 people in the Auckland region meeting the definition of being severely housing deprived, 15,210 were sharing overcrowded housing.

3 See Statistics New Zealand, "New Zealand definition of homelessness: 2015 update", at stats.govt.nz.

4 Housing First (2018), *Ira Mata, Ira Tangata: Auckland's Homeless Count report*, at aucklandhomelesscount.org.nz.

5 Auckland's Homeless Count found 43% of people living in temporary accommodation in Auckland were Māori, 39% were Pacific peoples, and 20% were European/Pākehā. Ministry of Housing and Urban Development (2019), *Aotearoa/New Zealand Homelessness Action Plan*, pages 21 and 22. Other groups also disproportionately affected by homelessness include the rainbow community/takatāpui, women, young people, and people with mental health and addiction needs.

*Homelessness Action Plan 2019.*⁶ The plan identified that, as well as poverty and low incomes, housing shortages and increasing rents contributed to the significant increase in homelessness in some places, including Auckland.⁷

- 1.8 Initially, the emergency housing grant could be used only to pay for commercial accommodation such as motels or hostels. However, between November 2017 and the end of June 2020, the emergency housing grant was paid to private landlords and property management companies in Auckland.⁸
- 1.9 During this period, the Ministry paid more than \$37 million in emergency housing grants to fund private rental properties as emergency housing.

Why we were interested in this matter

- 1.10 We received a complaint about the Ministry's practice of paying suppliers of private rental accommodation for emergency housing. There were also media reports alleging that people were living in "marginal to uninhabitable" private rental properties that the emergency housing grant paid for. It was reported that the Ministry paid some landlords \$3000 or more a week for a property.
- 1.11 These reports also alleged that suppliers of private rental properties were taking their properties from the long-term rental market because of the higher rates paid through the emergency housing grant.⁹
- 1.12 It is important that public organisations have robust processes to ensure that they are buying a good or service at a reasonable price and receiving value for money. Public organisations should use evidence and analysis to inform their decisions about how to spend public money. Without robust processes, public trust and confidence in a public organisation can be damaged.
- 1.13 The quality of the private rental properties and the amount of public money spent has raised questions about the Ministry's internal processes. We wanted to understand the Ministry's decision-making processes that led it to start, then stop, paying to use private rental properties as emergency housing.

6 The other agencies that developed and jointly own the plan are the Ministry of Social Development, Kāinga Ora – Homes and Communities, the Ministry of Health, Te Puni Kōkiri, the Ministry for Pacific Peoples, Ara Poutama Aotearoa/Department of Corrections, the New Zealand Police, and Oranga Tamariki – Ministry for Children, with support from other government agencies.

7 Ministry of Housing and Urban Development (2019), *Aotearoa/New Zealand Homelessness Action Plan*, pages 21 and 22.

8 Although the practice of funding private rental properties was not exclusively used in Auckland, it was much more common there than in other parts of New Zealand.

9 In this report, suppliers include property owners and property management companies.

Scope of our work

- 1.14 We looked at how the Ministry made decisions and what mechanisms it had to account for the money it spent. We focused on how the Ministry decided to use private rental properties as emergency housing in Auckland between November 2017 and June 2020.
- 1.15 We looked at:
- how the Ministry decided to enter into arrangements with housing suppliers;
 - the Ministry's processes for deciding to pay to use private rental properties as emergency housing, including how it assessed the quality of the housing, how it determined how much to pay, and how it ensured that it was getting what it paid for; and
 - the Ministry's decision to stop paying to use private rental properties.
- 1.16 We did not consider policy decisions about emergency housing that the Ministry made, including the decision to use private rental properties. Policy decisions are outside the Auditor-General's mandate.
- 1.17 In carrying out our work, we:
- obtained and considered documents that the Ministry provided in response to our questions;
 - visited a Work and Income site in Auckland and met with frontline staff who deal with applications for the emergency housing grant;
 - spoke with staff from the Ministry's national office about decision-making and the emergency housing grant processes;
 - spoke with staff from the Ministry of Housing and Urban Development;
 - spoke with non-government agencies and advocates about their experience with people living in private rental properties that the emergency housing grant paid for;
 - spoke with two suppliers of private rental properties for emergency housing; and
 - reviewed reports into homelessness, particularly in Auckland, between November 2017 and June 2020.

Structure of this report

- 1.18 In Part 2, we describe how the Ministry views its relationship with emergency housing suppliers, how it pays for emergency housing, and how it pays for emergency housing through the emergency housing grant. We also describe how the use of private rental properties for emergency housing in Auckland increased and what happened when the Ministry stopped using them.
- 1.19 In Part 3, we discuss our findings, including the way the Ministry made decisions and its accountability for spending public money, and points for the Ministry to consider to improve its processes and controls.

Paying to use private rental properties as emergency housing

2

- 2.1 In this Part, we describe:
- the emergency housing grant and how it has changed since 2016;
 - the Ministry's decision to start paying to use private rental properties as emergency housing; and
 - what happened when the Ministry decided to stop using private rental properties as emergency housing.

What the Emergency Housing Special Needs Grant is

- 2.2 The Ministry is responsible for implementing several programmes that are intended to help people in need. One of these programmes is the Special Needs Grant Programme (the programme).¹⁰ The programme provides “non-taxable, one-off recoverable or non-recoverable financial assistance to clients to meet immediate needs”.¹¹
- 2.3 The emergency housing grant is part of the programme and was established in 2016.¹² It is defined as “a grant to an applicant for the supply of Emergency Housing that MSD considers adequate to meet the needs of the applicant and their immediate family”.¹³
- 2.4 The emergency housing grant was intended as a last resort to pay for a week or two of temporary accommodation until a person could find longer-term accommodation.
- 2.5 Initially, the emergency housing grant paid for commercial accommodation such as motels or hostels.
- 2.6 The Work and Income website defines emergency housing as:
*... premises that are intended to be used as temporary accommodation by people who have no usual place of residence or who are unable to stay in their usual place of residence (whether also used as temporary accommodation by other people).*¹⁴

10 The Special Needs Grant Programme is one of 29 welfare programmes approved and established by the Minister of Social Development.

11 See workandincome.govt.nz.

12 The Cabinet paper that authorised the creation of the emergency housing grant also authorised the creation of what was to become the transitional housing scheme, where the Ministry procured emergency housing places.

13 See workandincome.govt.nz.

14 See workandincome.govt.nz.

- 2.7 The Ministry's service delivery staff, including case managers, have authority to approve grants within the limit that the programme specifies.¹⁵ The programme states that the amount paid for emergency housing cannot cost more than the "actual and reasonable costs" of the emergency housing, including any security bond.
- 2.8 The Work and Income website includes guidelines for Ministry staff on the maximum payment rates for hostels and motels. The guidelines allow for a maximum payment of \$40 each night for a single person and a maximum payment of \$260 each night for a family of four or more.
- 2.9 The guidelines allow staff to pay higher rates in some circumstances. These include if there is a lack of adequate accommodation to meet the needs of a person and their family, or if the person has particular needs such as wheelchair access.
- 2.10 In a briefing to the Minister dated 20 August 2020, the Ministry noted that Ministry staff have the discretion to approve grants that are more than the maximum limits in exceptional circumstances. This could be, for example, when there is no alternative accommodation.
- 2.11 The Ministry said that, in all instances, its focus is on "ensuring our clients are able to access warm, safe and dry emergency housing".

The relationship between the Ministry and the supplier of emergency housing

- 2.12 The Ministry's position is that it has no contractual relationship with suppliers of emergency housing. The Ministry considers that it is paying the grant to the supplier on behalf of the person needing emergency housing.¹⁶
- 2.13 The Ministry sees its role as ensuring that people have the "financial resource to access emergency housing", and it has no function for checking the housing's quality. We discuss the Ministry's view in paragraphs 3.51-3.61.
- 2.14 This is consistent with the way the Ministry says that it funds other essential or emergency needs. For example, although the Ministry provides a special needs grant for food, it is not responsible for ensuring that the food purchased is good value or of reasonable quality. The person receiving the grant selects the good or service (within some limits). They also retain their rights under consumer law and can seek redress from the shop if a product is faulty in some way.

¹⁵ Although grants are renewed weekly, some people had multiple renewals and stayed in emergency housing for weeks or months. If people received the emergency housing grant for longer than five weeks, service managers had to approve new grants. Regional directors had to approve grants after nine weeks. The Ministry of Social Development's Deputy Chief Executive had to approve grants after 12 weeks.

¹⁶ See the briefing dated 20 September 2020, *Emergency Housing Special Needs Grants: Strengthening processes*.

- 2.15 In a briefing to the Minister of Social Development on strengthening processes for the emergency housing grant dated 20 September 2020, the Ministry described the process:

Eligible clients are able to identify their preferred emergency housing accommodation that will work best for them (eg based on proximity to work, schools and childcare). When clients have not identified emergency housing accommodation, [the Ministry] works with the client to identify an appropriate supplier based on the above criteria. Once an emergency housing supplier is identified, [the Ministry] will then pay the supplier (via [an emergency housing grant]) on behalf of the client.¹⁷

How the emergency housing grant process works

- 2.16 A person who has nowhere to stay can apply for the emergency housing grant. They need to talk to a case manager from the Ministry, who can approve the emergency housing grant if they are satisfied that the person meets the criteria.¹⁸
- 2.17 When a person arrives at a Ministry office looking for emergency housing, staff call suppliers to find appropriate accommodation and establish how much it will cost.¹⁹ They also agree the amount of any security deposit to hold in case of damage with the supplier.²⁰ The amounts are recorded on the Ministry's systems as being paid by the emergency housing grant.
- 2.18 The Ministry told us that staff look for accommodation if the client does not have a preferred option. However, the evidence we saw suggests that clients were discouraged from sourcing their own private rental properties.
- 2.19 The Ministry normally pays emergency housing suppliers directly. However, if a supplier has EFTPOS and can accept a Work and Income New Zealand payment card, the client staying in the emergency housing can pay for it that way. If the Ministry pays the supplier through direct credit, the supplier provides an invoice that the Ministry matches with the pre-approved amount before paying.
- 2.20 The client is given the address of the accommodation to go to. The initial emergency housing grant covers a maximum of seven days. If, after seven days, the client has been unable to find alternative accommodation and needs an extension of the emergency housing grant payment, they need to contact their

17 Briefing dated 20 September 2020, *Emergency Housing Special Needs Grants: Strengthening processes*, paragraph 4.

18 The Ministry has discretion to grant an emergency housing grant if an applicant has an immediate emergency housing need and not granting an emergency housing grant would have a negative effect on the applicant and their family. See workandincome.govt.nz.

19 The registration process is explained in paragraphs 2.54-2.59.

20 See the Work and Income website, workandincome.govt.nz, for more information about processes.

case manager and show evidence that they have been actively looking for longer-term accommodation.

- 2.21 Ministry staff told us that this means evidence of attending viewings for rentals and applying for tenancies. Before New Zealand went into Alert Level 4 lockdown in March 2020, people were required to visit a Ministry office to see their case manager. Now they can call the Ministry.
- 2.22 The emergency housing grant can be renewed for up to seven more days each time a client applies.²¹ There is provision for grants to be renewed for up to 21 days if the Ministry has allocated an intensive case manager to the person.²²
- 2.23 Ministry staff we interviewed talked about the challenges in finding affordable housing some people faced. Ministry staff told us that, in a competitive market where demand for low-cost rentals exceeded supply, people with high levels of debt, larger households, people with a history in the tenancy tribunal, and beneficiaries were less likely to be successful than other applicants when applying for tenancies.
- 2.24 Ministry staff noted that the search was demoralising and hopeless for some people. However, they were still required to provide evidence that they were actively looking for housing.²³
- 2.25 The intention was for people to stay in emergency housing for one or two weeks. However, Ministry staff told us that the challenges in securing alternative accommodation meant that people often stayed in emergency housing, including private rental properties, for weeks or even months.

How the emergency housing grant fits with other housing support

- 2.26 The emergency housing grant is intended to be a last resort option. The other publicly funded longer-term housing options include transitional housing, public housing through Kāinga Ora and community housing providers, and support for people in private rental properties.
- 2.27 Transitional housing is a 12-week housing programme. People eligible for transitional housing are placed in housing and provided with support, such as budgeting advice. Although the Ministry completes assessments for public housing and refers people to transitional housing providers, the Ministry of

21 Most people need to renew their emergency housing grant multiple times while they continue to seek long-term housing.

22 The intensive case manager roles were implemented in 2020. Intensive case managers have small case loads and work with clients to find long-term housing. These clients tend to have complex needs, and it is likely they will take some time to find long-term accommodation.

23 This requirement was dropped for Covid-19 Alert Level 4 and 3 lockdown periods. After lockdown, people were able to communicate with the case manager by phone.

Housing and Urban Development procures the contracts between the Ministry and suppliers for transitional and public housing.

- 2.28 The Ministry also helps people find long-term accommodation through property brokers. The property broker role was established in early 2020.²⁴ The Ministry employs them to find private rental properties and negotiate with landlords to make their properties available for the long term.
- 2.29 The Ministry also has several ways it can help people moving into private rental properties, including payments to cover bond and rent, accommodation supplements, and temporary additional support.

Why the Ministry of Social Development decided to use private rental properties as emergency housing

Increasing demand for emergency housing

- 2.30 In 2017, there was increasing pressure on the rental housing market in Auckland. The Ministry says that there was also pressure on the short-term accommodation market, with high demand from tourism and international students at the same time. Although the transitional housing programme had started, supply was not keeping up with demand.
- 2.31 Frontline staff told us that, in November 2017, they were dealing with increasing numbers of large households looking for somewhere to live. Ministry staff told us that most of the households were Māori or Pacific families.²⁵
- 2.32 These households did not have access to longer-term accommodation straight away. Frontline staff described the difficulties that they had finding appropriate motels for them.
- 2.33 One of the challenges for large households was that motels generally could not fit everyone in one room. Households had to be split between motel rooms, which meant an adult had to be available to supervise children in each room. That was not always possible for larger or single-parent households.
- 2.34 Ministry staff also described the difficulties some disabled people had with finding suitable emergency accommodation.²⁶ In particular, there was a shortage of suitable motel rooms for people in wheelchairs.

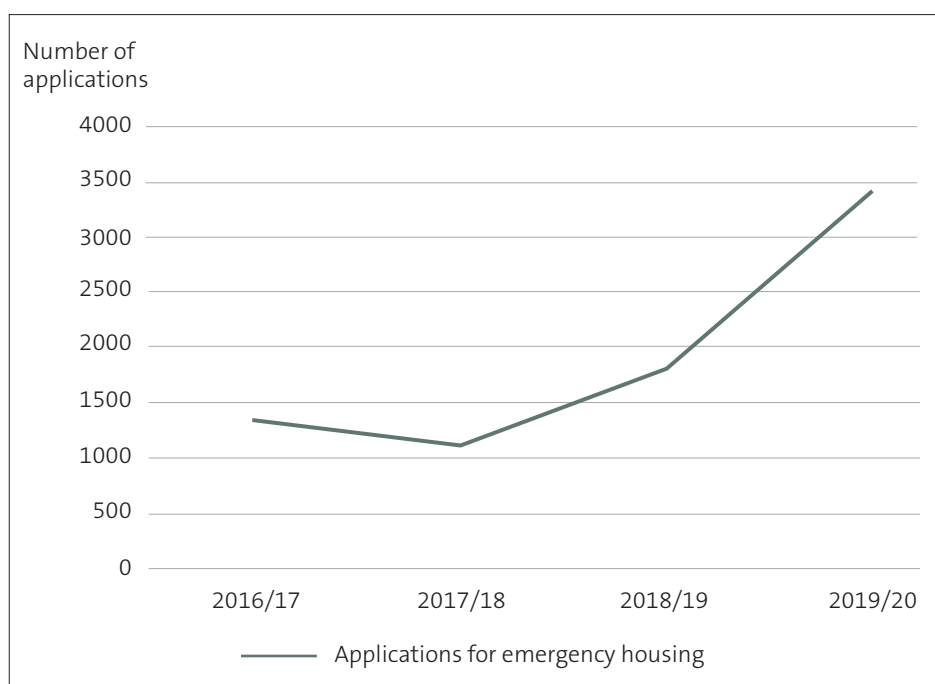
24 This was an initiative established under the *Aotearoa/New Zealand Homelessness Action Plan*. The plan also introduced rental readiness programmes to support clients to access and sustain private rental accommodation.

25 Although the Ministry did not collect specific data about the ethnicity of these clients at the time, Māori and Pacific peoples are disproportionately represented in homelessness data.

26 Staff told us this during interviews. They did not have data to support this, but it is consistent with other data, such as the Homelessness Count, and interviews with other people, such as community groups.

2.35 Figure 1 shows that, from mid-2018, the number of people looking for emergency housing continued to increase in Auckland. This put pressure on Ministry staff to find accommodation quickly. Frontline staff told us people often arrived at their offices late in the day needing somewhere to stay that evening.

Figure 1
The number of applications for emergency housing in Auckland, 2016/17-2019/20



Source: The Ministry of Social Development. Note that applications may cover families that include adults and children. The dates reflect the 1 July to 30 June year.

How the Ministry of Social Development started using private rental properties as emergency housing

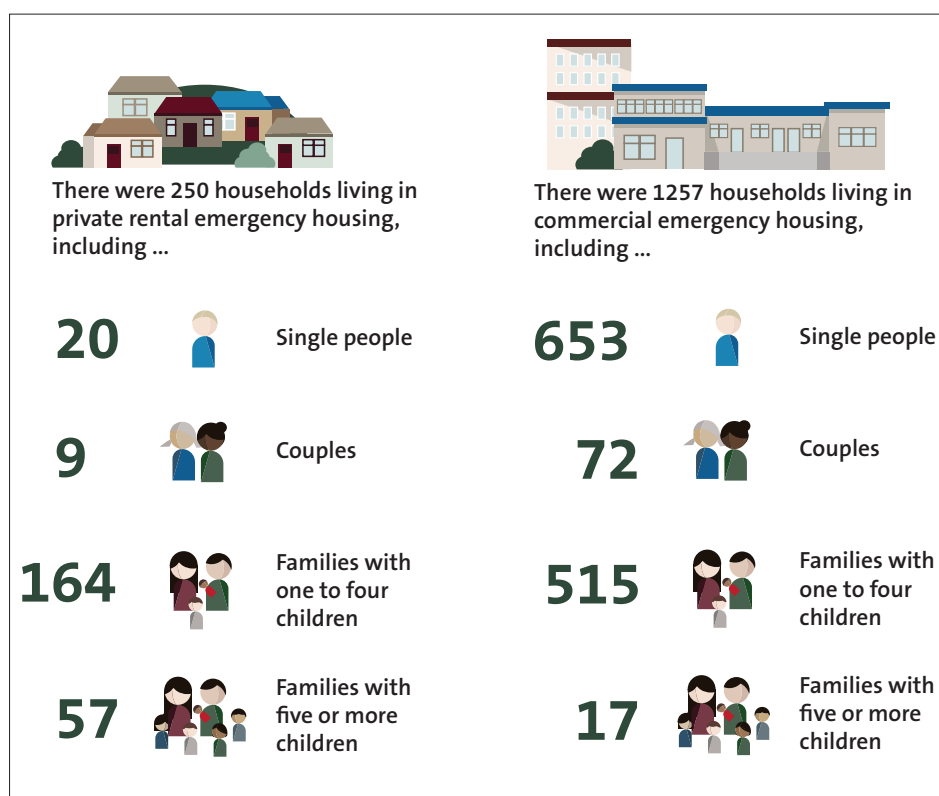
2.36 The Ministry started using private rental properties as emergency housing in November 2017. A family had been placed in a motel that the emergency housing grant paid for.

2.37 However, the motel room was crowded, so the family looked for a better short-term option. They found a house through an online short-term accommodation booking service. The house was more suitable and cheaper than the motel they were in.

- 2.38 The family went to a Ministry office and asked whether the Ministry could use the emergency housing grant to pay for the private rental. Frontline staff told the family that the Ministry could use the grant in this way.
- 2.39 A property management company managed this house. The property management company subsequently registered as a supplier for the Ministry in November 2017. It then made more houses available for the Ministry to use as emergency housing.
- 2.40 Ministry staff told us that having houses available for large households was a “miracle” because it meant households that could not stay in motels had a place to go.
- 2.41 The property management company emailed Ministry staff with properties it had available, how many people the property could house, and the weekly cost. Ministry staff could also contact the property management company when people arrived at its offices looking for emergency housing.
- 2.42 Ministry staff told us that the property management company was generally able to find a property.
- 2.43 The Ministry said that it implemented some parameters to manage the use of private rental properties – for example, only using these properties for large families and people with mobility or social functioning issues. However, it did not develop a policy on using private rental properties as emergency housing or change its guidance for staff.
- 2.44 As the practice of using private rental properties as emergency housing increased, so did the number of suppliers offering their properties. By the time the Ministry stopped paying for private rental properties, 21 suppliers were registered with it.
- 2.45 Although private rental properties were primarily used as emergency housing to accommodate larger households, they were also sometimes used for smaller households and individuals. For much of the period covered by this inquiry, the Ministry was able to report on how many individual emergency housing grants were granted, but it could not accurately report on the size of the households using these grants. This meant that the Ministry could not say how many people were living in emergency housing.
- 2.46 However, in May 2020, the Ministry improved how it collected data. It says that it can now report on the size of a household and how many people, including children, were living in emergency housing at any point in time after May 2020.

2.47 The Ministry provided us with data for the households in emergency housing in Auckland, as at 29 May 2020.²⁷ Figure 2 shows the households in emergency housing on that day.

Figure 2
 The number of people in Auckland living in private emergency housing compared with people in Auckland living in commercial emergency housing, as at 29 May 2020



Source: The Ministry of Social Development.

Suppliers of the private rental properties

2.48 The Ministry understood that the first property management company it used was preparing houses for sale while also making them available as short-term accommodation to bring in some income for the owner.

2.49 In April 2019, the Ministry spoke to the owner of the property management company about their business. The owner said that it managed properties as

²⁷ The Ministry created this data for internal purposes. It provides a snapshot of the makeup of households in emergency housing shortly before the Ministry stopped funding the use of private rental properties as emergency housing.

holiday rentals. Some of those houses were on the market for sale, and families using them as emergency housing had to vacate for any open homes.

- 2.50 In 2021, the property management company went into liquidation. The liquidator reported that one of the reasons the company became insolvent was because, after the Ministry stopped paying for private rental properties, it could no longer pay the long-term leases that it had entered into with landlords. Therefore, it appears that these properties were available to the supplier on long-term leases.
- 2.51 Some suppliers leased houses and sublet them as emergency housing. Other suppliers were property management companies that charged property owners a fee.
- 2.52 One supplier told us that their business helped investors buy residential property specifically to make it available as emergency housing. Another supplier told us that the houses it managed were not usually used as long-term rentals but that property owners trusted the supplier to manage their properties as emergency housing.
- 2.53 Until the Ministry wrote to suppliers in November 2019 (see paragraph 2.88) we did not find explicit expectations that properties needed to be furnished (including bedding) or needed electricity and gas (if applicable). However, the suppliers we spoke to said that they provided fully furnished properties. One supplier we spoke to said that they also included internet.

Becoming a supplier

- 2.54 Suppliers must register with the Ministry to receive payment from it. Emergency housing suppliers had to complete the Ministry's standard registration process for suppliers of goods and services.
- 2.55 Before September 2019, suppliers had to complete an online form and provide their bank account details to the Ministry. The form asked them to identify what they were supplying. Only one paragraph in the form referred to the quality of the good or service being supplied:
- I/We will ensure that Ministry clients know that I am/we are responsible for any fault with the product or service delivered, including standard warranty/guarantee conditions listed under the Consumer Guarantees Act 1993.²⁸*
- 2.56 From September 2019, Ministry staff were required to check that the person or business registering as a housing supplier was either the property owner or had authority to act on the owner's behalf. This was almost two years after the Ministry started to fund private rental properties.
- 2.57 If the applicant was a property management company or property manager, staff also needed to check that they had a contract with the property owner. Although this requirement applied when the supplier registered, the Ministry did not require

28 The form "Retailer/Supplier/Payee Details" is available at workandincome.govt.nz.

suppliers to provide evidence that they had the authority to rent out new properties after the initial registration (see paragraphs 2.72-2.77 and paragraph 3.56).

- 2.58 Apart from one supplier, the Ministry did not check whether suppliers that registered before September 2019 had authority to deal with the houses they provided. The Ministry told us that:

...the monitoring and enforcement of regulations around sub-letting are the responsibilities of other agencies and ... that it has voluntarily strengthened its systems to improve the services it delivers to its clients rather than because it has a legal responsibility to do so.

- 2.59 The Ministry's verbal or email agreement with suppliers covered the period of the emergency housing grant.²⁹ The Ministry told us that it makes agreements with suppliers on its clients' behalf.

Responsibility for the quality of emergency housing

- 2.60 The Ministry told us that it was paying grants to the suppliers on behalf of the people needing emergency housing but that it had no contractual arrangement with the suppliers. Accordingly, although the Ministry told us that it expected suppliers to meet standards in the Residential Tenancies Act 1986 and other relevant legislation, it did not set any standards or monitor compliance with legislative and regulatory requirements. We comment on this in paragraphs 3.53-3.61.
- 2.61 In the Ministry's view, it had no inspection function for quality standards or legal right to access the properties. The Ministry also told us that its staff were not trained to identify issues with housing quality. The only way of knowing whether there was an issue with a property was if a person living in emergency housing contacted the Ministry to make a complaint.
- 2.62 The Ministry told us that the registration process does not involve an assessment of the quality of the goods or services. It expects that suppliers will be subject to "a range of monitoring regimes".³⁰

²⁹ As we mentioned in paragraph 2.22, this was generally for a period of seven days and up to a maximum of 21 days if the person in emergency housing had an intensive case manager.

³⁰ These include, for example, Tenancy Services or the Council (for consent issues). The Ministry told us that, by contrast, it will scrutinise the quality of the goods and services provided under a "preferred supplier" arrangement when it enters into that arrangement. The Ministry has preferred supplier contracts for whiteware and glasses.

Payments to suppliers

- 2.63 From 1 January 2018 to 30 June 2020, the Ministry paid about \$37 million to suppliers to use private rental properties as emergency housing in Auckland.³¹

Why the Ministry of Social Development decided to stop using private rental properties as emergency housing

Condition of the properties

- 2.64 Ministry staff and an advocate for people in emergency housing told us that there were issues with the quality of some of the private rental properties that the emergency housing grant paid for. The Ministry provided us with emails and photos about concerns people had raised.
- 2.65 The Ministry also described six complaints that it had recorded formally.³² Ministry staff told us that, when they raised concerns with suppliers, either the problems were solved or the people living at the property were moved.
- 2.66 However, Ministry staff did not routinely keep records of all complaints or photos.³³ Although there was a spreadsheet for recording complaints, it included only two entries for suppliers of private rental properties in Auckland between April 2019 and December 2020.
- 2.67 The advocate we spoke to said that some of the private rental properties used as emergency housing were not fit for purpose. He saw houses that were like building sites with debris inside and outside, and houses with no ovens, furnishings, or bedding.
- 2.68 The advocate told us that, in many instances, families were so desperate they would take anything. He told us that he sometimes accompanied people to emergency housing as part of his advocacy. The addresses he went to were for private rental properties the Ministry had funded as emergency housing. He considered that six to 10 places he saw were not fit for purpose, and he advised people not to move into them.
- 2.69 In September 2019, the Ministry of Housing and Urban Development received a complaint about a house that three families occupied and that was funded

31 We were told that there was limited use of private rental properties in other parts of New Zealand. Most of the spending occurred after November 2018. At this time, the Ministry estimated that only 53 households were placed in private rental properties. This had risen to 224 households by September 2019 and peaked at 356 households in March 2020.

32 It is unclear whether the emails and photos are about these complaints.

33 Ministry staff told us that the Ministry also received complaints from suppliers about the people staying in the private rental properties causing damage or removing items from the house when they left. When the emergency housing grant was set up, the Ministry would also have the person apply for a special needs grant to cover damage or loss. People who received this grant had to repay it.

through emergency housing grants. The house had a leaking roof and was overcrowded. The Ministry of Housing and Urban Development forwarded the complaint to the Ministry.³⁴

- 2.70 We were unable to obtain a complete list of private rental properties used as emergency housing. However, some private rental properties in the sample we looked at housed more than one family. These private rental properties were sometimes described as having a “front property” and a “back property”.
- 2.71 To be recognised as separate dwellings, both the front and back properties need to be recorded in council records as dwellings, and the council should have consented them for use as dwellings. However, we checked the Auckland Council records, and there was no consent for a second dwelling on three of the properties we checked.

Legality of subletting

- 2.72 As well as complaints about the condition of the property, issues were raised about the legality of some of the suppliers’ tenancy arrangements. Several suppliers leased houses and sublet them as emergency housing.
- 2.73 In a Tenancy Tribunal decision dated 24 May 2019, one of the suppliers was found to have breached the tenancy agreement when he sublet the property as emergency housing to the Ministry for 16 weeks. The tenancy agreement did not allow subletting without the landlord’s consent, which had not been given.
- 2.74 The Ministry had paid the supplier \$60,800 (\$3,800 each week) through the emergency housing grant. The rent the supplier paid to the landlord under the lease for the same 16-week period was \$8,000 (\$500 each week).
- 2.75 It was not possible for us or the Ministry to identify whether any other suppliers were offering properties to the Ministry without the property owner’s authority. This was because the Ministry did not have systems to ensure that suppliers of individual properties used as emergency housing had the property owner’s authority.
- 2.76 The Ministry told us that it had no obligation to determine the nature of the lease arrangements between property managers and property owners. However, it told us that it changed its registration process in 2019 to make clear its expectation that the lessee had the owner’s permission to use the property as emergency housing.
- 2.77 The Ministry noted that Tenancy Services is responsible for monitoring and enforcing issues with subletting residential properties.

³⁴ The Ministry did not record this complaint on its spreadsheet of complaints. The Ministry told us that it would not expect to record an issue that a third party raised alongside complaints that its clients raised.

Effect on transitional housing and the long-term rental market

- 2.78 In September 2019, two suppliers of transitional and community housing contacted the Ministry of Housing and Urban Development. They were concerned that suppliers were providing private rental properties as emergency housing instead of as longer-term housing because of the high rates the Ministry was paying.
- 2.79 This could reduce housing supply for people needing transitional housing or more permanent housing, particularly because the Ministry of Housing and Urban Development would usually only pay the market rent and would not compete with the amounts the Ministry was paying.³⁵
- 2.80 For example, a house had been leased for public housing for \$1,400 a week. When the lease ended on 18 September 2019, the owner did not renew it. They made it available as emergency housing instead. The family who had been living in the house had to move.
- 2.81 The Ministry of Housing and Urban Development raised these concerns with the Ministry. The Ministry talked to one supplier that it understood had the property available as emergency housing. The supplier said that the property was being redeveloped and was not available long term.
- 2.82 However, on 4 November 2019, a different supplier offered the same property to Ministry staff as emergency housing for \$3,900 a week. This supplier told us that it had leased the property.

The Ministry's response to the issues

- 2.83 Between September and November 2019, the Ministry worked with the Ministry of Housing and Urban Development on the issues that had been raised and how to respond. In November 2019, it agreed on a two-stage response.
- 2.84 The Ministry would first send a letter to suppliers asking them to consider long-term leases or to become transitional housing suppliers. The Ministry would then contact specific suppliers that had taken their properties off the long-term rental market to use them as emergency housing.
- 2.85 The Ministry hoped that this would reduce the use of private rental properties as emergency housing and minimise any adverse effect on the availability of long-term rental properties.
- 2.86 The Ministry considered setting up a service-level agreement between it and suppliers. The purpose of such an agreement would be to reflect the level of service the Ministry expected and provide a mechanism for controlling costs.

³⁵ The Ministry noted that the Ministry of Housing and Urban Development occasionally exceeds market rents and uses a range of financial and other incentives as part of the overall package to support owners.

2.87 However, the Ministry did not end up progressing the idea of a service-level agreement with suppliers. The Ministry told us:

The Ministry notes that it investigated the option of using a Service Level or similar agreement to better manage the use of private rentals for emergency housing. That option was not progressed for the following reasons:

- i) it may have seen MSD act outside legislation by using a hardship grant to 'underwrite' an agreement,*
- ii) it may have exacerbated the risk that suppliers perceived the relationship as a contract,*
- iii) it may have led to the replication of transitional housing functions carried out by HUD, and*
- iv) it likely would not have addressed concerns on the impact on the private rental market.*

2.88 In November 2019, the Ministry wrote to the suppliers setting out its expectations that suppliers would be:

- Compliant with the Residential Tenancies Act (1986) and the Residential Tenancies (Healthy Homes Standards) Regulations (2019). It is important to note there may be potential risks to your business if you are found to be acting in a manner inconsistent with the RTA.*
- Providing emergency housing that includes the required chattels for such accommodation i.e. heater, bedding, linen, cooking facilities etc.*
- Not impacting the housing market by reducing the supply of long-term rental properties in the Auckland market.*
- Not marketing to existing landlords with tenanted properties by offering higher returns from Emergency Housing.*
- Mak[ing] properties available on request for inspection by the Ministry.*
- Not marketing or using Emergency Housing to trial a tenant's suitability for more permanent housing.*
- Not directly marketing vacancies to MSD case managers. Our preference would be to establish a centralised contact point, so we can ensure the right households are placed in your properties, and so we can minimise any unintended consequences of our utilisation.*

- 2.89 The number of private rental properties used as emergency housing did not decrease. The Ministry estimated that, in September 2019, 23% of Auckland households in emergency housing were in private rental properties. By the end of March 2020, this increased to 31%.
- 2.90 One of the reasons the Ministry continued to use private rental properties was because there was a shortage of suitable and affordable alternative housing for people to live in. This shortage continued despite the increase in supply of transitional and public housing.
- 2.91 Between December 2017 and June 2021, the number of public housing tenancies in Auckland increased by 4298 and the number of transitional housing places increased by 1256. Nevertheless, demand for emergency housing in Auckland continued to grow.
- 2.92 However, when the country's borders closed because of Covid-19, more motels and hotels became available. This included apartment-style hotel accommodation that was better suited for larger households.
- 2.93 In May 2020, the Ministry wrote to suppliers telling them that it would stop paying for private rental properties from 30 June 2020.
- 2.94 Suppliers were invited to consider providing long-term tenancy agreements or to contact the Ministry of Housing and Urban Development to see whether their properties could be used as transitional housing.³⁶
- 2.95 The Ministry allocated suppliers to specific case managers to help move people to other accommodation. We were told that some moved to emergency housing but that others went into transitional housing, public housing, or private rental properties. Some households could remain in a private rental property on a long-term tenancy agreement.³⁷
- 2.96 Suppliers we spoke to said that they believed that they were providing a service to the Ministry and the people living in the houses. They said that they saw themselves as filling a gap, both in terms of providing short-term housing and supporting households to find long-term housing.^{38, 39}

36 Two suppliers told us that they had tried to register as a transitional housing provider but had been unsuccessful to date.

37 Information about where the household moved to is in individual client files, and the Ministry had no system to track where people went to when they moved out of emergency housing.

38 These suppliers described a range of assistance they provided, such as social work, financial advice, and training to be good tenants. The suppliers did not have a contract to provide services and told us that they did this because they believed it was the right thing to do.

39 We were unable to obtain data to show how many households were moved from emergency housing into long-term housing.

- 2.97 We were not able to speak to anyone who was required to leave the private rental properties when the Ministry stopped paying for them. However, we understand that, although the Ministry extended the emergency housing grant week by week, some people had been living in the houses for weeks or even months and regarded the house as their home.
- 2.98 Based on data the Ministry collected, there were between 633 and 911 children living in private rental properties paid for by the emergency housing grant as at 29 May 2020. We note the timing of the Ministry's decision was not long after the country moved to Alert level 2 on 13 May 2020 and during an ongoing period of change as a result of Covid-19. Ministry staff spoke to the people affected by the decision to move them from private rental properties after it made that decision. However, we did not see any evidence that the Ministry engaged with any representatives of the communities living in emergency housing before deciding to move people back into commercial properties.

Our findings

- 3.1 In this Part, we discuss our views about:
- the degree of planning the Ministry did to inform its decisions to start, then stop, paying for private rental properties as emergency housing;
 - value for money (managing the cost and ensuring the quality of the private rental properties); and
 - who is accountable for delivering the intended outcomes.

Introductory comments

- 3.2 We consider that, although the Ministry no longer funds private rental properties as emergency housing, lessons arising from this inquiry are relevant to other situations.
- 3.3 Public organisations are accountable to Parliament and the public for how they spend public money.
- 3.4 The Ministry's position on the emergency housing grant is that the arrangement is between the Ministry's client and the supplier. The Ministry sees its role as providing financial assistance to the client through the emergency housing grant. It provides that financial assistance by paying for the accommodation on the client's behalf.
- 3.5 However, in practice, the way that the Ministry accessed and paid for emergency housing on behalf of vulnerable people through the emergency housing grant placed it in a central role.
- 3.6 The people applying for the grant often relied on the Ministry to find emergency accommodation in circumstances where they had no other options. Second, once they were in the accommodation, it is unclear what rights, if any, the people had in relation to the property they were in. If there was a problem, it appears people relied on the Ministry to help resolve it.

Best practice

- 3.7 Our good practice guide *Public sector purchases, grants, and gifts: Managing funding arrangements with external parties* sets out the basic principles that govern how public organisations use public money to pay or fund external parties. These principles apply whether the public organisation is spending money through a procurement process, a grant, or a gift.
- 3.8 The basic principles are as follows:
- **Accountability:** Public organisations are accountable for their performance and should be able to give complete and accurate accounts of how they have used

public funds. This includes funds that they passed on to others for particular purposes. They should also have suitable governance and management arrangements to oversee their funding arrangements.

- **Openness:** Public organisations should be transparent in how they administer funds. This supports accountability and promotes clarity and a shared understanding of the respective roles and obligations of the public organisation and the external parties they have entered into funding arrangements with.
- **Value for money:** Public organisations should use resources effectively, economically, and without waste. They should have due regard for the total costs and benefits of an arrangement and its contribution to the outcomes the organisation is trying to achieve. Where practical, this may involve considering the costs of alternative supply arrangements.
- **Lawfulness:** Public organisations must act within the law and meet their legal obligations.
- **Fairness:** Public organisations have a general legal obligation to act fairly and reasonably. Public organisations must be, and must be seen to be, impartial in their decision-making. Public organisations may sometimes also need to consider the imbalance of power in some funding arrangements and whether that imbalance is significant enough that they need to change the way they conduct the relationship.
- **Integrity:** Anyone managing public resources must do so with the utmost integrity. The standards applying to public servants and other public employees are clear, and public organisations need to make clear that they expect similar standards from any external parties they fund.

3.9 A public organisation should have mechanisms to ensure that it is getting value for money. It should also be able to report to Parliament and the public about whether the money it spends is achieving its purposes.

3.10 As well as applying the principles described above, our good practice guide provides advice about taking a strategic approach to funding arrangements:

It is important for public entities to think clearly about the different ways they can use funds, and the benefits, costs, and management consequences of different approaches, throughout their planning.⁴⁰

⁴⁰ Controller and Auditor-General (2008), *Public sector purchases, grants, and gifts: Managing funding arrangements with external parties*, page 11.

- 3.11 We expected the Ministry to have:
- taken a strategic approach to deciding which suppliers to fund;
 - mechanisms to ensure that it was getting value for money; and
 - been able to describe how it had used public money to achieve its purposes.

Strategy should inform service provision

- 3.12 We expected the Ministry to consider how it met the needs of people seeking emergency housing by finding options and assessing their costs and benefits for both the short term and longer term.
- 3.13 Funding arrangements are not an end in themselves. They are a way of achieving the public organisation's broader goals:
- A fundamental part of strategic thinking and business planning for any public entity is considering the most effective way to use public funds to achieve its goals.⁴¹*
- 3.14 The Ministry has several strategy documents that set out its broader goals and outcomes, and the principles it will use to deliver its outcomes. We expected the Ministry to use these documents to inform its strategic planning when it makes decisions about paying to use private rental properties as emergency housing.
- 3.15 The Ministry's strategy documents include:⁴²
- its statement of intent, which acknowledges the importance of working with others to achieve its outcomes and goals;
 - *Te Pae Tata – Te Rautaki Māori me te Mahere Mahi – Māori Strategy and Action Plan*; and
 - *Pacific prosperity: Our people, our solutions, our future* – a Pacific strategy and action plan.
- 3.16 These three documents emphasise the importance of working in partnership with the community. Although not all were in place when the Ministry started using private rental properties, the concepts in them built on those set out in strategic documents that were in place at that time.
- 3.17 In addition, the Ministry is a joint owner of the *Aotearoa/New Zealand Homelessness Action Plan*. Cabinet approved this in February 2020, before the Ministry decided to stop funding private rental properties as emergency housing. We expected the Ministry to have used the principles in the Homelessness Action Plan when it made that decision.

41 Controller and Auditor-General (2008), *Public sector purchases, grants, and gifts: Managing funding arrangements with external parties*, page 11.

42 See msd.govt.nz.

- 3.18 The *Aotearoa/New Zealand Homelessness Action Plan* is a cross-agency plan that sets out the guiding principles that underpin the plan and actions carried out under the plan. These principles include Te Tiriti o Waitangi, a whānau-centred approach, embedding kaupapa Māori approaches, and a joined-up approach between agencies and communities.
- 3.19 As we described in Part 2, the decision to start using private rental properties as emergency housing was innovative and a pragmatic way to respond to a difficult problem. We acknowledge that the Ministry was responding to urgent need in a market where there was significant pressure to find housing, especially for larger families.
- 3.20 However, in 2018, when the pressure for emergency housing continued to grow in Auckland and the amount that the Ministry was spending on private rental properties was increasing, it carried out no analysis or planning about:
- how many houses it would need;
 - where the houses would come from;
 - whether using private rental properties as emergency housing would affect other parts of the rental market;
 - how much the private rental properties would cost;
 - what terms and conditions may apply to the arrangements with suppliers;
 - what the alternatives to using private rental properties were; and
 - how it would account for the money it spent and how it would consider value for money.
- 3.21 We expected the Ministry to have considered these matters once it started paying emergency housing grants for private rental properties. The Ministry's guidance for its staff referred only to motels and hostels as emergency housing and did not cover arrangements with suppliers of private rental properties.
- 3.22 The Ministry told us that it did not want to encourage the use of private rental properties (by providing explicit guidance), given the potential impact on the rental housing market. However, by September 2019, almost a quarter of the people in emergency housing in Auckland were in private rental properties. It was clear that, whatever issues there were with the cost and quality of private rental properties, there was considerable demand for them.
- 3.23 In September 2019, the Ministry became aware of issues with private rental properties being used as emergency housing. The Ministry discussed possible solutions with the Ministry of Housing and Urban Development. However, there

was limited analysis of the scale of the issues or in-depth policy analysis of options to address those issues.

- 3.24 The Ministry told us that its Auckland regional office provided analysis of the scale of the issue for its meeting with the Ministry of Housing and Urban Development. The Ministry said that it weighed the factors and decided that a gradual exit would be desirable. This would allow time for suppliers to explore other options, such as providing the properties as long-term rentals, and minimise disruption for its clients.
- 3.25 In November 2019, the Ministry wrote a letter to suppliers attempting to persuade them to meet housing standards and not to take their properties from the long-term rental market. The Ministry appears to have taken this approach because it needed suppliers to continue housing larger households despite the issues raised and because it did not believe it could enforce standards.
- 3.26 The letter did not resolve the issues with the private rental properties. The use of private rental properties as emergency housing continued to increase. We were told that there continued to be complaints about the quality of housing. It was not clear from the evidence we saw how the Ministry would have addressed the issues with private rental properties if it had not been for Covid-19 and the border closure.
- 3.27 As we mentioned in Part 2, the Ministry announced in May 2020 that it would stop using private rental properties as emergency housing from 30 June 2020 because more motels and hotels had become available for larger households.
- 3.28 We acknowledge that frontline staff needed to find a solution urgently and acted in their clients' best interests when the Ministry funded the use of private rental properties as emergency housing.
- 3.29 In our view, the decisions to start, then stop, using private rental properties were reactive, made for pragmatic reasons, and a significant change in practice. The Ministry made both decisions without carrying out any strategic thinking, analysing the issues, or considering the likely costs or benefits of options.
- 3.30 The Ministry also did not appear to consider the expectations in its strategic documents and (after February 2020) the *Aotearoa/New Zealand Homelessness Action Plan* that it would work with those affected by its decisions to identify the best outcomes for them.
- 3.31 Good planning and strategic thinking are important elements of delivering services effectively. Although the Ministry had some strategic documents

outlining its goals for emergency housing, we saw little evidence of planning to meet those goals.

- 3.32 Whether or not the Ministry was paying a fair price to use the private rental properties as short-term emergency housing (see paragraphs 3.36-3.50), it appeared to provide a much higher rate of return for property owners than they would have received through a transitional housing lease or private rental arrangements.
- 3.33 As the Ministry accepted in retrospect, this could take properties out of the long-term rental market. The Ministry did not fully consider this before the practice became widespread. It was able to partially mitigate the impacts of its use by encouraging Auckland region staff to limit use of private rental properties to larger whānau.
- 3.34 We encourage the Ministry to consider a more strategic approach to meeting people's needs for emergency housing. The Ministry could identify options and assess the costs and benefits of each option for the short term and the longer term.
- 3.35 In doing so, the Ministry should work with the Ministry of Housing and Urban Development and the communities most affected by homelessness (Māori, Pacific People, the rainbow community/takatāpui, women, young people with mental health and addiction needs, and the disabled community) to find and assess options.

Value for money

Managing cost

- 3.36 As we mentioned in paragraph 3.8, it is important that a public organisation uses its resources effectively, economically, and with due regard for an arrangement's total costs and benefits. In this instance, the Ministry was not able to show that it received value for the public money it spent.
- 3.37 The Ministry generally paid suppliers of private rental properties between \$2,000 and \$3,000 a week for a furnished property. Average rental costs in Auckland and, in particular, South Auckland varied depending on location, number of bedrooms, and condition. The median rent for Manukau between 2017 and 2020 for an unfurnished rental ranged from a low of \$450 a week in December 2017 to a high of \$560 a week in December 2020.⁴³
- 3.38 The Ministry's guidance for commercial premises had a maximum of \$260 each night, and Ministry staff had the discretion to pay more. However, they had no guidance for what a reasonable payment for short-term furnished private rental properties was.

- 3.39 We saw evidence that payments for private rental properties were more than \$260 each night, which was the maximum rate each night for motels.⁴⁴ However, some households would have required more than one motel room to accommodate everyone.⁴⁵
- 3.40 Ministry staff entering into those arrangements on the Ministry's behalf had the delegated authority to do so and were able to agree amounts that were not beyond actual and reasonable costs.
- 3.41 We heard that there was significant pressure on them to find somewhere for people to stay that day and that there were limited options for some households. In some instances, using private rental properties may have been cheaper and more suitable than using multiple motel units. However, we expected the Ministry to have monitored the cost of the private rental properties and assessed what a fair rate would be, especially as the practice grew, to ensure that rates were in fact reasonable.
- 3.42 The Ministry did not put in place any mechanisms to guide staff on the appropriate rate to pay for private rental properties, and frontline staff seem to have had limited control over what they would pay.
- 3.43 Ministry staff said that there was a pressing need to find somewhere for people to stay. This meant that suppliers were often able to determine the rate because they knew there were few options available.
- 3.44 As a result, the Ministry paid several times the long-term market rate for private rental properties. This meant that it was paying more than other people in the market for long-term private rental properties could pay.
- 3.45 We accept that the rates paid for short-term rentals are generally higher than long-term rentals because of the risk that properties are vacant for periods. The Ministry also did not guarantee the property's ongoing use, and suppliers covered costs, such as power and gas, that tenants would normally pay for.
- 3.46 However, as the Ministry advised its Minister, it is likely that the higher rates it paid for these properties will have distorted the rental market.⁴⁶
- 3.47 We expected the Ministry to have carried out some analysis to determine what a fair rate would be. This analysis could include comparing the market rates

44 Weekly rental was generally between \$2,000 and \$3,000, which equates to daily rates of between \$285 and \$428.

45 The Ministry did not collect information about how many people were covered by individual emergency housing grants from November 2017 to June 2020. Therefore, it is not possible to accurately say whether the Ministry was paying more or less than it would have paid for motel rooms.

46 Paragraph 14 of the Ministry's briefing to the Minister of Social Development dated 20 August 2020 states: "By early 2020, it had become clear that MSD's use of private properties was having a small but potentially tangible impact on the Auckland property market, particularly given that many of these properties were at the affordable end of the market and may otherwise have been leased on a long term basis to our clients."

of weekly rental options for fully furnished houses. It could also have provided guidance on national contracting practices to support staff. However, the Ministry did not do this analysis or provide this guidance.

- 3.48 The Ministry told us that it believes that the amount it paid for private rental properties was no more (and, for large families, less) than it would have paid had the people been placed in motels. However, paying the same amount for different “products” is not the same as ensuring value for money.
- 3.49 For these reasons, we consider the Ministry is not able to demonstrate that the private rental properties it funded represented value for money. Although the Ministry has stopped paying for private rental properties, it continues to fund emergency housing, including housing for larger households and disabled people.
- 3.50 As more people need emergency housing and are having to stay in it for longer, the Ministry could usefully review its guidance to ensure that it adequately supports its frontline staff to know what a fair price for emergency housing is.

Ensuring quality emergency housing

- 3.51 To achieve value for money, the Ministry also needed to consider whether what it was paying for contributed to the outcome it was seeking.
- 3.52 The Ministry said that its focus for emergency housing was on ensuring that people had a warm, dry, and safe place to stay. The Ministry understood that private rental properties would be fully furnished, including bedding, and that amenities such as electricity and water charges would be included in the weekly rate.
- 3.53 However, the Ministry did not have any processes, or require any evidence, to ensure that the private rental properties met its expectations and complied with council requirements or the terms of any leases with the property owner. It considered that it was not responsible for ensuring that properties met legal or regulatory requirements.
- 3.54 The Ministry told us that it relied on existing regulatory and monitoring regimes such as the Council or Tenancy Services. The Ministry’s only mechanism for ensuring that accommodation was suitable was by responding to complaints from people in the houses.
- 3.55 This meant that the clients in the accommodation, who were in a vulnerable position, had to raise concerns with the Ministry. In our view, this is not a suitable process for ensuring that the housing it wanted to provide is “warm, dry, and safe”.
- 3.56 Although the Ministry says that it does not have a role in monitoring compliance, it said it required suppliers to provide evidence that they had the authority to rent

out the property after September 2019. However, this did not happen for suppliers that registered before September 2019 or for individual houses.

- 3.57 We found evidence that not all the properties supplied for emergency housing were suitable (see paragraphs 2.64-2.71). Although these may have been isolated incidents, it is not possible to know the extent of the issues because the Ministry did not record and retain the addresses of properties it used, set standards for those properties, or have a process to check whether the properties met its expectations. The Ministry also did not keep comprehensive records of all complaints made about the properties.
- 3.58 In our view, the Ministry should have processes to ensure that the private rental properties it was paying for met quality standards (including what a minimum standard may be). The Ministry did not write to suppliers expressing its expectations that housing be warm, dry, and safe until September 2019.
- 3.59 The Ministry could have considered this earlier in the process to help ensure that it was paying for accommodation of a suitable quality. What we saw was an agreement to pay a provider to provide accommodation and little more than that.
- 3.60 In effect, the Ministry trusted suppliers to deliver suitable emergency housing, with little or no monitoring. In our report *Management of the Wage Subsidy Scheme*, we recommended that:
- ... when public organisations are developing and implementing crisis-support initiatives that approve payments based on “high-trust”, they:*
1. *ensure that criteria are sufficiently clear and complete to allow applicant information to be adequately verified; and*
 2. *put in place robust post-payment verification measures, including risk-based audits against source documentation, to mitigate the risks of using a high-trust approach.*⁴⁷
- 3.61 These points apply equally to this situation.

Accountability

- 3.62 As we mentioned in paragraph 2.12, the Ministry’s position is that it had no contractual relationship with the supplier. On that basis, we understand that the Ministry considered that it did not have contractual levers to control price and quality. However, in our view, the Ministry is still required to account for the public money it spends, whether it is through a contract or another funding arrangement.

47 Office of the Auditor-General (2021), *Management of the Wage Subsidy Scheme*, page 6.

- 3.63 Being accountable means giving Parliament and the public “complete and accurate accounts of how they have used public funds, including funds passed on to others for particular purposes”.⁴⁸
- 3.64 The Ministry spends public money to provide special needs grants to people who need them. The Ministry has said that the accommodation it funds should be warm, safe, and dry. However, it did not have the mechanisms to ensure that the properties fit these criteria. It should also be able to report on whether it has achieved that outcome.
- 3.65 In some circumstances, the person receiving a grant from the Ministry to pay for a good or service provides accountability and assurance that the money has been properly spent.
- 3.66 However, for private rental properties, the Ministry rather than the recipient selected the emergency housing. The Ministry also agreed the price with the supplier. After seven days, if the person still needed emergency housing and wanted to stay in the same location, both the Ministry and the supplier needed to agree to renew the grant to cover that property.
- 3.67 The Ministry told us:
It is acknowledged that the Ministry’s emergency housing placement practice has developed over time. At the beginning of the period in question it remained common for clients to source their own emergency housing, however, by the end of the period it had become MSD practice to refer clients to emergency housing considered likely to meet their needs.
- 3.68 The Ministry also told us that it agreed the price with the supplier “on the client’s behalf”. However, if the people in the house had any specific rights in relation to the house, it was unclear what they were and how they could enforce them.⁴⁹
- 3.69 To remain in the same house, people relied on the Ministry to renew the emergency housing grant and the supplier to continue to make the house available. Even when people were staying in emergency housing for weeks or months, there was no guarantee that they could stay in the same house beyond the period of the current emergency housing grant.

48 Controller and Auditor-General (2008), *Public sector purchases, grants, and gifts: Managing funding arrangements with external parties*, page 9.

49 It was unclear whether the Residential Tenancies Act 1986 applied to people in emergency housing during June 2017 to November 2020, as the Ministry suggests. Whatever the legal position was, we are not aware of people being told they had any specific rights for their tenancy. On 12 August 2020, the Residential Tenancies Act was amended so that it did not apply to people living in emergency or transitional housing funded through a special needs grant or any other government payment. People in emergency housing will be unable to enforce housing standards under the Residential Tenancies Act in the future.

- 3.70 The Ministry of Housing and Urban Development is developing a code of practice that will set out expectations for both suppliers and people needing transitional housing. The Ministry is working with the Ministry of Housing and Urban Development on this.
- 3.71 However, the Ministry told us that it is unlikely that it will be able to enforce the code for emergency housing “because the current model for [the emergency housing grant] is not contract based”.
- 3.72 The Ministry says that it will use the code to “inform” its process for resolving complaints instead. This relies on households that depend on the Ministry and the supplier to meet their immediate housing needs and have no other options available to them to make a complaint. In our view, this is not a robust model.
- 3.73 When the Ministry paid an emergency housing grant to a supplier, it was difficult for the person living in the emergency housing to hold the supplier accountable. In our view, a complaints process may not be adequate to achieve accountability.
- 3.74 The Ministry’s aim is to fund emergency housing that is warm, dry, and safe. Although the Ministry could account for the money it spent on emergency housing under arrangements with suppliers, it could not show whether the money it spent achieved that aim. We encourage the Ministry to consider the processes it can put in place to be able to do that in future.

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